SAFEWAY STORES, INCORPORATED

CORPORATION FILE

1963

ANNUAL REPORT

SAFEWAY STORES, INCORPORATED

EXECUTIVE OFFICES
Fourth and Jackson Streets, Oakland, California

TRANSFER AGENTS
The Chase Manhattan Bank, New York, New York and the Crocker-Citizens National Bank, San Francisco, California

REGISTRARS
First National City Bank, New York, New York and The Bank of California, National Association, San Francisco, California

ACCOUNTANTS
Peat, Marwick, Mitchell & Co.

DIRECTORS

ROBERT A. MAGOWAN
Chairman of the Board and President

J. G. BOSWELL
President and Director J. G. Boswell Company

GEORGE T. BURROUGHS
Vice President

NORMAN CHANDLER
Chairman of the Board & President The Times Mirror Company

HENRY B. CLAY
Senior Vice President

CHARLES DE BRETTEVILLE
Chief Executive Officer, President & Chairman of Executive Committee The Bank of California, N.A.

HUGH FROST
Vice President

ARTEMUS L. GATES
Business Consultant

A. RUSSELL GRIFFITH
Vice President and Controller

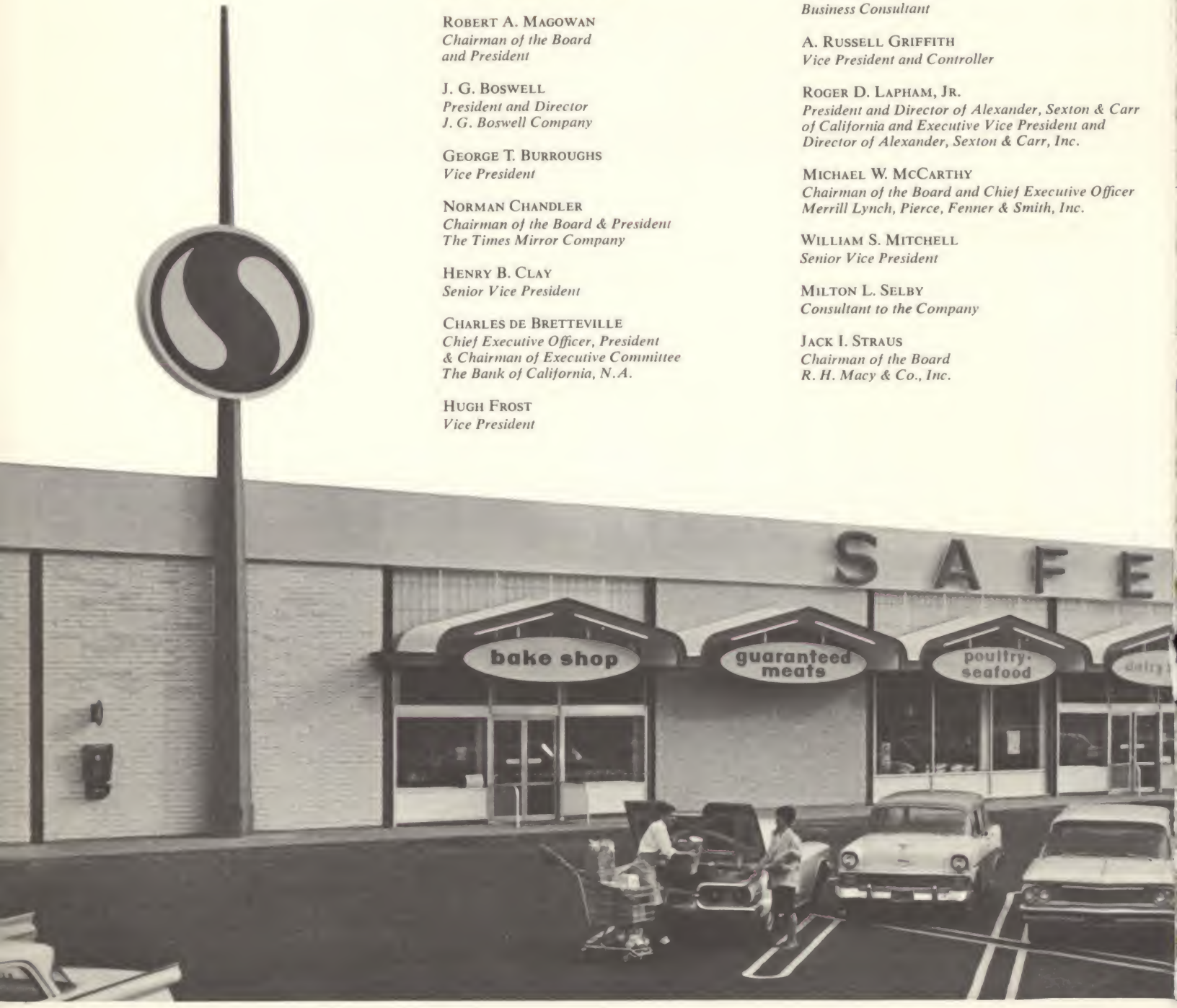
ROGER D. LAPHAM, JR.
President and Director of Alexander, Sexton & Carr of California and Executive Vice President and Director of Alexander, Sexton & Carr, Inc.

MICHAEL W. MCCARTHY
Chairman of the Board and Chief Executive Officer Merrill Lynch, Pierce, Fenner & Smith, Inc.

WILLIAM S. MITCHELL
Senior Vice President

MILTON L. SELBY
Consultant to the Company

JACK I. STRAUS
Chairman of the Board R. H. Macy & Co., Inc.



COVER PHOTO: *Mrs. Stella Decker, employed in store #542, Oakland, California.*

OFFICERS

ROBERT A. MAGOWAN
President and Chairman of the Board

HENRY B. CLAY
Senior Vice President
Regional Retail Manager

WILLIAM S. MITCHELL
Senior Vice President
Supply Operations

GEORGE T. BURROUGHS
Vice President
Real Estate and Construction

HUGH FROST
Vice President
Advertising, Personnel, Research and Public Relations

A. RUSSELL GRIFFITH
Vice President and Controller
Accounting and Finance

J. A. ANDERSON
Vice President
Washington, D.C. Division Manager

R. L. CAMPBELL
Vice President
Regional and Denver Division Manager

LORENZO N. HOOPES
Vice President
Supply Division Manager

D. B. KANE
Vice President
Los Angeles Division Manager

QUENTIN REYNOLDS
Vice President
Regional and San Francisco Division Manager

GLYNN E. TUCKER
Vice President
Non-Foods Division Manager

J. W. RUPLEY
Treasurer

DRUMMOND WILDE
Secretary and Vice President
General Counsel

EXECUTIVE COMMITTEE

ROBERT A. MAGOWAN
Chairman

CHARLES DE BRETTEVILLE

ROGER D. LAPHAM, JR.

MILTON L. SELBY

ANNUAL MEETING The 1964 Annual Meeting of the Common Stockholders will be held on May 19, 1964. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 10, 1964. This Annual Report does not constitute part of the proxy soliciting material.

HIGHLIGHTS

	1963	1962
Operating Results[1]		
Sales	$2,649,712	2,509,644
Income before provision for income taxes	94,746	83,326
Provision for income taxes	49,930	44,055
Net income	44,816	39,271
Net income as a percent of sales	1.69%	1.56
Distribution of Earnings[1]		
Dividends to preferred stockholders	$ 838	903
Dividends to common stockholders	20,723	20,052
Earnings retained in the business	23,255	18,316
Per Share of Common Stock		
Net earnings	$ 3.50	3.06
Dividends paid	1.65	1.60
Working capital	9.56	9.40
Book value	23.43	21.56
Price range New York Stock Exchange – Low-High	45⅜-64¾	36¼-60⅜
Financial Position (at end of year)		
Working capital[1]	$ 120,177	117,902
Current assets per dollar of current liabilities	1.74	1.81
Equity of common stockholders[1]	294,551	270,298
Other Statistics		
Number of employees (at end of year)	66,605	63,120
Approximate number of stockholders of record (at end of year)	58,900	59,900
Number of stores (at end of year)	2,059	2,069
Average annual sales per store[1]	$ 1,250	1,183

Note:
(1) *In thousands of dollars.*

To Safeway Shareholders and Safeway People:

1963 was Safeway's most successful year. Sales, income and earnings per share were higher than ever before. On the opposite page is a brief comparison of 1963 and 1962 results. Complete figures, including a ten-year comparison, are shown in the Financial Folio.

Higher earnings moved the Board of Directors to increase the quarterly dividend on the common stock from 40¢ to 45¢ per share, effective with the December payment. This was the sixth time in the last seven years that the dividend rate has been increased.

1963 was another very competitive year. Economic pressures to increase sales built up as openings of new stores by competitors continued. High volume is needed to support the investment of several hundred thousand dollars now required to build, equip and stock a modern food store.

Aggressive competition is not new in the food industry. Over the years it has helped to keep food prices stable by holding down the cost of distribution. During the last ten years food prices in this country increased less than 1% per year.

As you may know, President Johnson has requested an investigation of the entire food marketing structure. We will welcome an objective investigation that is concerned only with determining facts. It will clear up misunderstandings of how low cost distribution is achieved, and how it benefits both producers and consumers.

The combination of aggressive competition, rising costs, and stable prices presents a severe test of a Company's operating policies and abilities. First, in getting sales which are a measure of success in attracting and satisfying customers. Then, in making a profit which requires skill in controlling costs without sacrificing sales, and is the final mark of a successful merchant.

A year ago I reported our decision to continue to put our major emphasis on food and to operate the kind of stores women prefer for food shopping. 1963 sales and profits indicate that this was a sound policy decision and the right one for us. They also indicate the ability of the Safeway organization to maintain a low cost operation while getting record-breaking sales. These are fundamental strengths that make the 1963 results significant for the future, as well as very gratifying.

At that time I also reported our decision to enter the non-food field with our Super S stores. Progress made on this part of our long range program is described later in this report.

In December we lost, through death, the counsel and services of Mr. Brayton Wilbur and Mr. Walter Hembroff. Mr. Wilbur served as a member of the Board of Directors from 1949 to 1953 and again from 1956 to the time of his death. He was also a member of the Executive Committee from the time it was organized in August of 1956. Mr. Hembroff was President and a Director of Canada Safeway Limited, a Canadian subsidiary, in addition to being a Regional Retail Manager and the Alberta Division Manager. Both of these able men will be missed very much.

The food industry will continue to grow in 1964. More money will be spent for food to satisfy the needs of an increasing population and the desire for a higher standard of eating resulting from an increase in personal disposable income. More food dollars will invite more aggressive competition, but there is no question in my mind about the ability of our organization to cope with it. I expect 1964 to be another very good year for Safeway.

Robert A. Magowan

President and Chairman of the Board of Directors

March 16, 1964
Oakland, California

1963

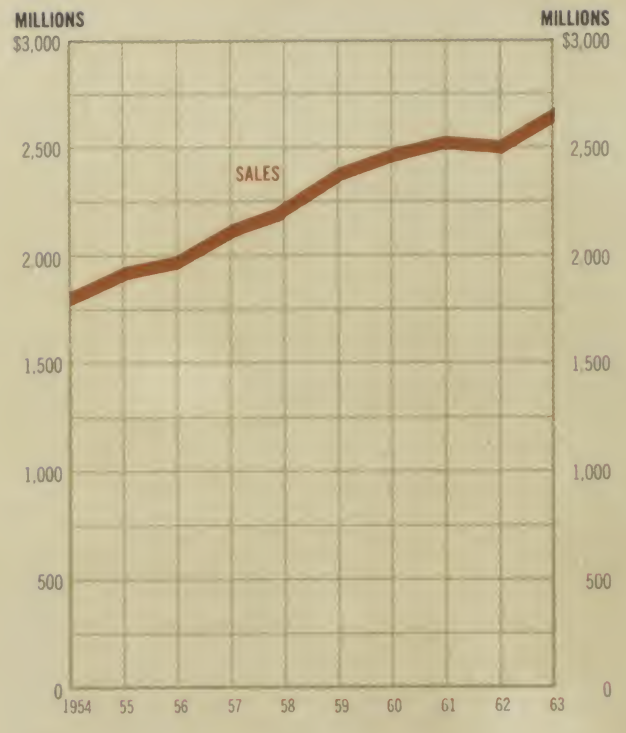
Sales

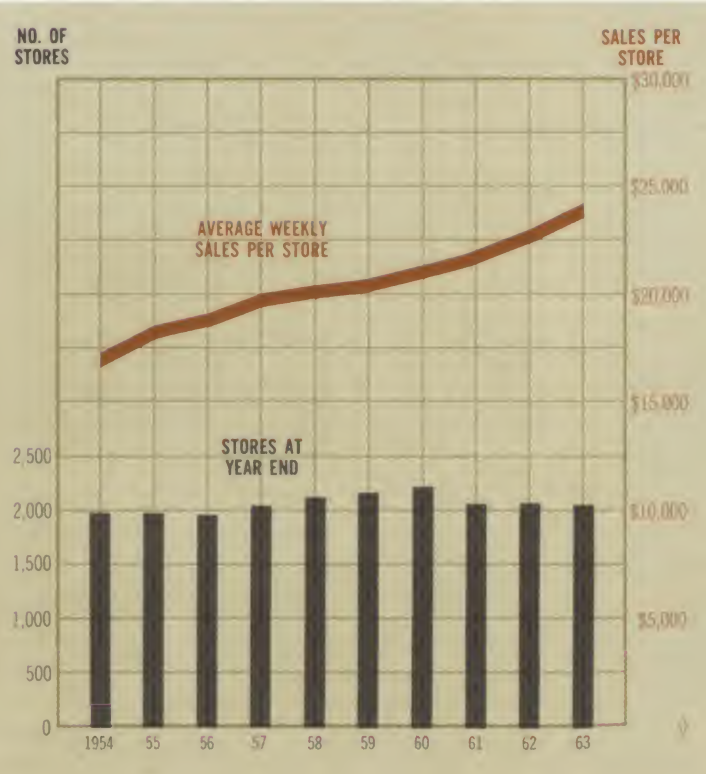
Safeway's 1963 sales in the United States and Canada reached a new all-time high of $2.65 billion—an increase of 5.6% over sales in 1962, and the third consecutive year in which sales have exceeded $2½ billion.

Over the past decade, sales have expanded by about 50%, with an annual average rate of increase of 4.3%. Grocery retailing is one of the growth industries in our expanding economy. Sharing in that growth and achieving new records in a business as vigorously competitive as supermarket retailing require the continual updating of our facilities, keeping pace with population shifts, shopping preferences of our customers, and constant improvement of our operating methods.

In 1963 Safeway opened 107 new, modern supermarkets in the United States and Canada. In addition, the first 6 Super S non-food stores were opened in the United States. A great number of our continuing stores were modernized, with remodeling changes ranging from minor to major alterations at an expenditure of about $23 million.

Safeway closed 123 older, outmoded grocery stores in the United States and Canada in 1963—10 more stores than we opened. Thus, 2,059 stores were in operation at the close of 1963—1,827 grocery stores and 6 Super S stores in the United States, and 226 grocery stores in Canada. With our





continuing program of replacement and modernization, three-fifths of our stores were less than 10 years old at the end of 1963, and many of the 10-year and older stores have been completely remodeled.

New supermarkets opened by Safeway during 1963 were larger as well as better equipped than those opened in previous years. Safeway grocery stores opened in 1963 averaged about 19,700 square feet in size, nearly 1,000 square feet per store larger than those opened in 1962. The 6 Super S stores opened in 1963 averaged nearly 26,000 square feet in size.

With more modern and better operated facilities, average volume per store again improved substantially. In 1963, Safeway's retail sales averaged $24,000 per store per week, or $1¼ million per year, another new all-time high.

Net Income

In 1963 record new highs were attained in income, both before and after provisions for taxes on income. Earnings per share of Common stock (after providing for Preferred dividends) and dividends paid to Common stockholders were also at new highs.

Pre-tax income was $94.7 million in 1963, an increase of 11% over 1962. The 1963 provision for taxes on income was $49.9 million, an increase of 13% over 1962. This left $44.8 million net income after taxes to be used for dividends to stockholders and to be reinvested in the business. As has been the case since 1951, more than half of our pre-tax income (52.7% in 1963) must be paid to governments in the form of income tax.

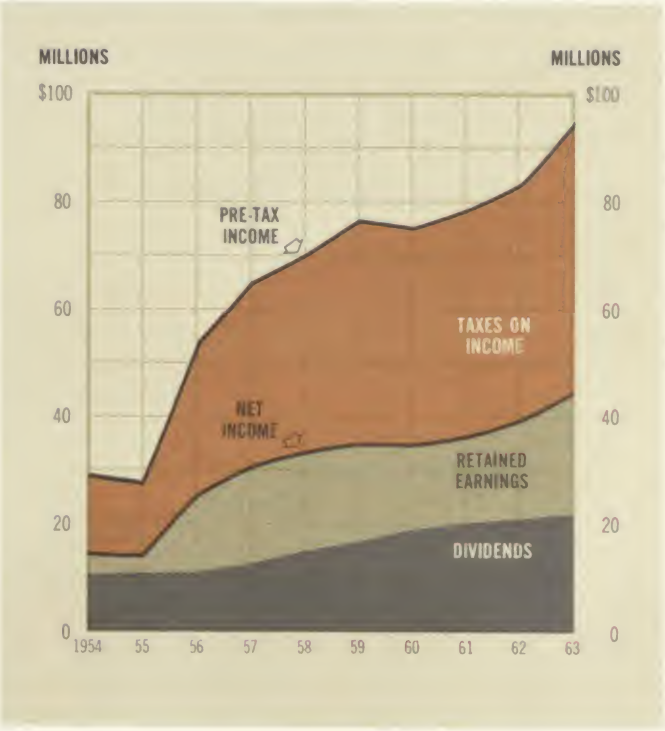
The income calculation for 1963 includes a charge of $650,000 for the decline in conversion value of our Canadian assets. The exchange value of the Canadian dollar relative to the U.S. dollar was fairly stable during the year. At the beginning of the year it was $.9285, at the end of 1963 it was $.9258, a decline of less than one-third of a cent for the year. The charge of $650,000 primarily covers the increase in our Canadian assets acquired during the year, and this amount has been added to a reserve which was, at the end of 1962, $2.2 million. If the Canadian exchange rate remains about the same in 1964, the adjustment for the year should be for about the same amount as in 1963.

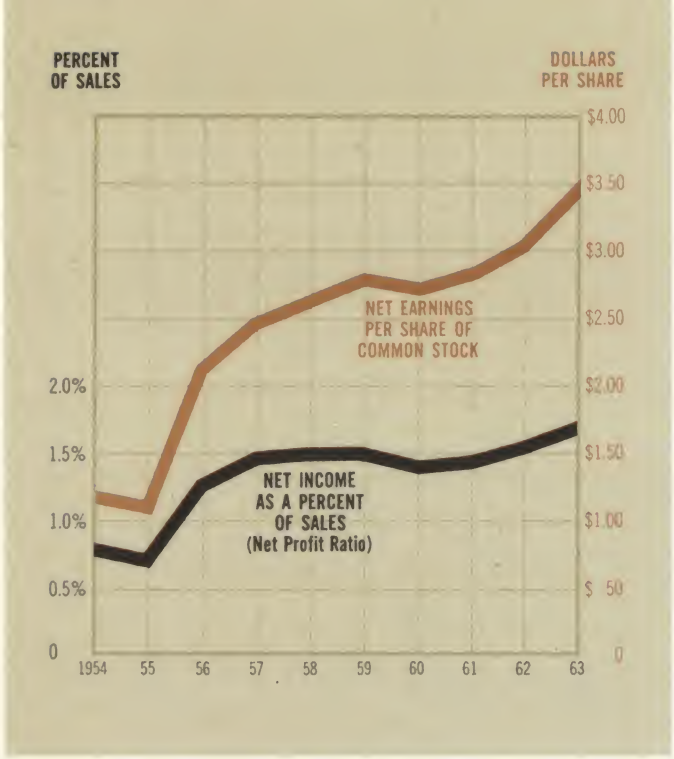
Another adjustment to income was through the "investment credit" under the Revenue Act of 1962. This is the second year that this credit has been allowed. The "investment credit" is based on newly purchased equipment and certain other depreciable assets put into use during the year. In 1963 the total "investment credit" amounted to about $1,970,000. Of this amount 48%, or about $945,000, has been used to reduce federal income tax expense for 1963. The remaining 52% has been credited to deferred income taxes payable, to provide for future income taxes because of reduced depreciation allowances.

The Canadian subsidiaries also have deferred income taxes payable due principally to allowances for depreciation for income tax purposes in excess of that recorded on the books. The amount of income taxes deferred to future years was approximately $600,000 for 1963.

The Company's earnings per average Common share outstanding, after providing for Preferred dividends, was $3.50. This was a new high and exceeded the previous high in 1962 of $3.06 by 14%. This $3.50 is after the charge to income due to the Canadian exchange adjustment on the increase in Canadian assets, approximately $.05 per share, and a credit to income of $.08 due to a reduction in income taxes through the "investment credit."

The rate of net income (after taxes) as a per cent of sales in 1963 was 1.69%. This was the best





net profit percentage since 1933, when income taxes amounted to only 12% of pre-tax income rather than over 50% at the present time. Our pre-tax income as a percent of sales was 3.57% in 1963. This has been exceeded only in the year 1928.

In 1963 Common stock dividends paid amounted to $1.65 per share. In the first three quarters the rate was 40¢ per share. In the fourth quarter the rate was raised to 45¢ per share. This is the sixth year out of the last seven years that the dividend rate has been raised.

Funds Generated from Operations

Funds generated from operations consist of net income plus charges to net income which do not require cash outlays in the year that the charges are made. Major charges of this type in 1963 consisted of depreciation expense $32.2 million; the $0.6 million provision for the conversion to U.S. dollars of the Canadian assets acquired during the year; the 52% of the "investment credit" representing federal income tax deferred to future years amounting to $1.0 million and $0.6 million of deferred Canadian income tax. These charges added to the $44.8 million of net profit gave total funds generated for the year 1963 of $79.2 million, which is the equivalent to approximately $6.31 per average Common share outstanding during the year.

These funds were used primarily for additions to fixed assets, which had a net increase of $46.3 million, and to pay dividends to the Common and Preferred stockholders in the amount of $21.6 million. The remaining $11.3 million was used to reduce long term debt, retire Preferred stock, and to increase working capital and other assets, principally investments and advances to foreign subsidiaries, excluding Canada.

For several years funds generated within the Safeway operations have been sufficient to cover the costs of new equipment for stores, warehouses and plants, and to also continue dividend payments at increasing rates to the Common stockholders. These funds generated are also largely responsible for the retirement of $53.8 million of debentures and $11.7 million of Preferred stocks in the last eight years.

Financial Position

Working capital at $120.2 million as of December 28, 1963 was $2.3 million larger than the previous year. The ratio of current assets to current liabilities was 1.74 to 1 as compared to 1.81 to 1 last year. This ratio is adequate for our operations.

Long term debt, consisting of debentures payable, deferred income taxes and the Preferred stock of our Canadian subsidiaries, amounted to $27.5 million, a decrease of $5.2 million from the previous year. The 4% Preferred and 4.3% Convertible Preferred outstanding as of December 28, 1963 were $19.8 million as compared to $21.4 million at the end of 1962.

As of December 28, 1963 the percentage breakdown of Safeway's capitalization (including long term debt) was: long term debt 8%, Preferred stockholders 6%, Common stockholders 86%. Eight years ago at the end of 1955 the percentage ratios were: long term debt 34%, Preferred stockholders 21%, Common stockholders 45%.

At the year end Common stockholders' equity in the Company was $294 million, an increase of $24 million over last year. Practically all of this increase is due to increased retained earnings. A little less than $1 million of the increase was due to conversion of 4.3% Preferred to Common stock, and the exercise of stock options. The book value per Common share was $23.43, an increase of over 125% from a book value of $10.41 at the end of 1953.

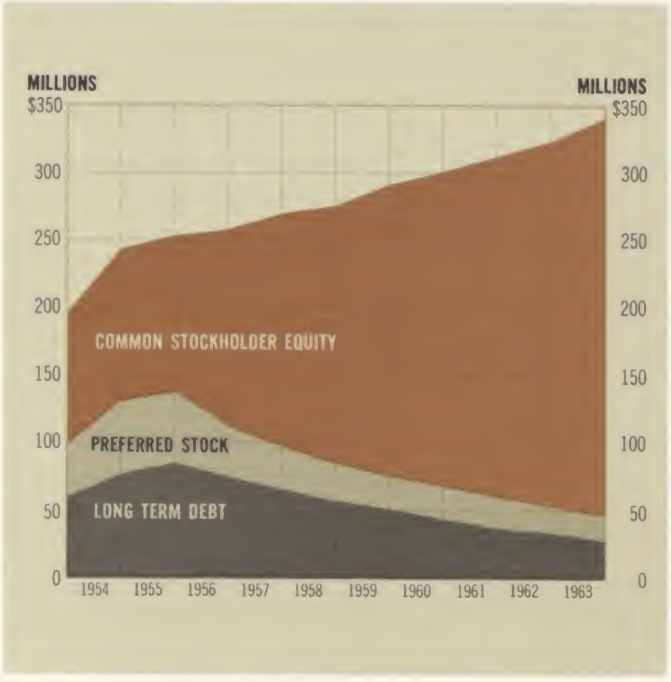
Foreign Operations

During 1963 Safeway expanded its overseas operations by entering Australia and West Germany. In Australia a new subsidiary of Safeway Stores, Incorporated, Australian Safeway, Pty. Limited, acquired by purchase all of the issued shares of Pratts Supermart Pty. Limited and Chelsea Supermart Pty. Limited. Under the terms of the purchase agreement Safeway Stores, Incorporated retained 91% of the Capital stock, and the shareholders of Pratts and Chelsea acquired 9% of the Capital stock of Australian Safeway Pty. Limited, with the right to purchase additional shares to increase their ownership up to 25% of the total outstanding stock.

Safeway also entered West Germany in 1963 by purchasing all of the Capital stock of Big Bär Basar which is being operated as a subsidiary by Safeway Stores, Incorporated.

Total investment and advances to foreign subsidiaries (other than Canada Safeway Limited) amounted to $5.7 million as of December 28, 1963, an increase of $2.1 million over December 29, 1962.

Preliminary audits indicate that foreign subsidiaries (other than Canada Safeway, Limited), which are not consolidated, operated at a small loss in their 1963 fiscal years. The losses were due primarily to non-recurring expenses incidental to the initial operations and were not material. Therefore, no adjustments have been made, and the investments and advances are shown at cost.



Stores

In our thinking about sales we ask the question—Why should anyone trade at Safeway? Or to put it another way—Have we earned a right to expect sales? This, we believe, is a realistic approach. It requires evaluation of our operations from the standpoint of the customer, and rules out the expectation of miracles.

One of the first steps in this approach is a continuing, critical review of our store facilities. In 1963 this resulted in the opening of 107 Safeway stores and the closing of 123 in the United States and Canada. In addition, 49 stores received a major remodeling. This means enough improvements were made in the building and equipment to bring the store up-to-date.

Some of the new stores replaced older stores that had become obsolete and were closed. Others followed population moves to tap areas not previously served or areas where population growth had moved too far away to be served by an existing store. From studies and experience we have learned there is a pretty definite limit to the distance a customer will travel to buy food.

One of the interesting developments in our store improvement program is the increasing number of instances in which a new store is built at the same location as an existing store which is to be replaced. Where the land site is large enough and otherwise acceptable, the existing store stays in operation until the new store is completed. The old building then is torn down and the area it occupied is used for new store parking.

Doing this has several advantages—lower new store cost; customers continue their established habit of shopping at the location while the new store is being built; to patronize the new store, customers are not required to change their shopping habits by going to a new location; there is no problem of disposing of an old store. Building in this way is done when the site still is a prime location even though the store has become obsolete. An example is pictured on page 8.

The added customer appeals of a new store are obvious. Larger, brighter; new departments such as an in-store bakery; wider selection of merchandise, particularly in frozen foods; more appealing

This new Safeway store and Super S store (not visible) occupy same location as old one (right), which will be razed.

displays; better freshness protection provided by more modern display equipment; more checkstands for faster service, and other features that make shopping more enjoyable. Not so obvious are such features as receiving docks built to handle pallet unloading of merchandise that save man-hours and make a more efficient store operation.

Most people also are not aware of the amount of power equipment required by a new store. Pictured on page 8 is one of two compressor rooms needed in a typical modern store to supply the refrigeration required for air conditioning and large displays of frozen foods and perishables. To give you some idea of what is involved, this is enough refrigeration to operate about 600 average size home refrigerators. An average store consumes enough electric power to serve 350 to 400 homes. Operation of a modern food store requires a lot of machinery as well as fixtures.

One of two refrigeration power plants in a typical modern Safeway store; compressors equal capacity of about 600 home refrigerators.

New stores usually conform to a standardized design to effect construction economies and to achieve a "Safeway Look" for quick identification wherever our stores are located. Exceptions, however, are made. They may be due to local building codes or the desire of communities to maintain architectural harmony with their historical past and for other aesthetic reasons. An interesting example of our desire to be a good neighbor in all such cases occurred in Ashland, Oregon, during the year.

This city, close to the California border, is famous for its Annual Oregon Shakespearean Festival. Widely acclaimed, attracting actors and audiences from all parts of the world, the plays are presented in a charming setting of old world nostalgia—an Elizabethan type theater. Replicas of the theater and symbols of the Shakespearean period were created in ceramic tile and used as murals on the façade and the side of our new store as shown in the picture on page 10. Use of the murals was praised by civic leaders as an important contribution to the community.

Before entering any new territory a very careful study is made to determine if there is a place for Safeway. Is there an opportunity to provide a service, or satisfy an existing need, or some other good reason for shopping with us that we can provide if we open a store? This is the "earn the right to expect sales" approach previously mentioned. But, even with the most careful studies, entering a new territory is a calculated risk and opening of the first store always brings some anxious moments of wondering. Has some consideration been overlooked? Have we underestimated the importance of some factor or misjudged the way in which the

SAFEWAY STORES, INCORPORATED

1963

Financial Folio

This statistical section of the Annual Report may be removed, if desired, by simply lifting along perforated line at each staple.

Consolidated

As of December 28, 1963 (With Comp

Assets

	December 28, 1963	December 29, 1962
Current Assets		
Cash	$ 52,249,994	$ 54,920,780
Short term investments—at cost	1,979,658	—
Accounts and notes receivable	10,724,680	10,698,555
Merchandise inventories—at lower of cost or market	197,539,678	184,255,225
Prepaid expenses	8,104,487	7,930,363
Properties for development and sale within one year	11,978,035	5,863,289
Total Current Assets	282,576,532	263,668,212
Other Assets		
Investments in and advances to foreign subsidiaries not consolidated—at cost	5,713,487	3,573,380
Notes receivable and miscellaneous investments	2,500,974	2,838,942
Unamortized debenture issue expense	153,961	220,207
	8,368,422	6,632,529
Property		
Land, buildings, equipment, etc.—at cost	398,502,157	369,787,822
Less depreciation	181,391,936	166,729,248
	217,110,221	203,058,574
TOTAL	$508,055,175	$473,359,315

Notes to Financial Statements

DEBENTURES PAYABLE: The debentures, redeemable at varying premium rates prior to maturity, consist of: parent $20,567,000 at 4.00% to 4.25% interest, maturing $5,000,000 annually, plus $1,000,000 sinking fund requirement in 1964 and then $3,000,000 annually to maturity in 1969; Canadian subsidiary, $1,877,000 at 4½% interest, maturing $200,000 annually, plus $120,000 sinking fund requirement annually to 1966 and then $360,000 annually to maturity in 1970 ($433,000 of debentures of the parent have been acquired to meet a portion of the 1964 requirements, and $563,000 of the Canadian subsidiary's have been acquired to meet the 1964, 1965 and a portion of the 1966 requirements). Under the indenture covering the parent's debentures, $99,323,504 of the retained earnings as of December 28, 1963, are restricted as to dividend payments and as to acquisition of its own stock. Certain other restrictions, including one upon creation of additional funded indebtedness, are imposed.

CAPITAL STOCK: The preferred stocks, par value $100 per share, consist of 4.30% convertible cumulative, authorized and outstanding 9,692 shares, and 4% cumulative, authorized 452,192 shares, outstanding 188,538 shares (after deducting 43,282 shares in treasury). Common stock, par value $1.66⅔ per share, consists of authorized 27,000,000 shares, outstanding 12,572,541 shares (after deducting 45,968 shares in treasury).

The terms of issue of the parent company's preferred stocks have sinking fund requirements which presently impose an annual retirement of 6,216 shares of the 4% preferred stock. Shares acquired and held as treasury shares, 43,282 at December 28, 1963, may be surrendered to meet the sinking fund requirements for 1964 through 1969 and part of 1970. The 4.30% preferred stock sinking fund requirement does not become operative until 1965. The preferred stocks are subject to redemption on call at a premium of 50 cents per share.

Of the unissued common stock of the Company, 63,209 shares are reserved for conversion of the 4.30% preferred stock.

FINANCIAL HIGHLIGHTS AND

	1963
Operating Results[1]	
Sales	$2,649,712
Income before provision for income taxes	94,746
Provision for income taxes	49,930
Net income	44,816
Net income as a percent of sales	1.69%
Distribution of Earnings[1]	
Dividends to preferred stockholders	$ 838
Dividends to common stockholders	20,723
Earnings retained in the business	23,255
Per Share of Common Stock	
Net earnings	$ 3.50
Dividends paid	1.65
Working capital	9.56
Book value	23.43
Price range New York Stock Exchange—Low-High	45⅜-64¾
Financial Position (at end of year)	
Working capital[1]	$ 120,177
Current assets per dollar of current liabilities	1.74
Equity of common stockholders[1]	294,551
Other Statistics	
Number of employees (at end of year)	66,605
Approximate number of stockholders of record (at end of year)	58,900
Number of stores (at end of year)	2,059
Average annual sales per store[1]	$ 1,250
Source and Use of Funds[1]	
FUNDS PROVIDED FROM:	
Net income	$ 44,816
Charges to income not requiring funds:	
Depreciation provision	32,230
Deferred income taxes	1,514
Provision for self insurance and decline in conversion value of Canadian assets	609
Total	$ 79,169
FUNDS USED FOR:	
Dividends to Company stockholders	$ 21,561
Additions to fixed assets (net)	46,281
Reduction in long term debt	6,699
Retirement of and from sale of capital stock (net)	617
Increase (decrease) in working capital	2,275
Increase (decrease) in other assets	1,736
Total	$ 79,169

LITHO IN U S A

AND SUBSIDIARIES

Statement of Consolidated Income and Retained Earnings

For the 52 Weeks Ended December 28, 1963 (with Comparative Figures for the 52 Weeks Ended December 29, 1962)

	1963	1962
Sales	$2,649,711,512	$2,509,644,155
Cost of Sales	2,074,012,509	1,977,237,232
Gross profit	575,699,003	532,406,923
Operating and Administrative Expenses	479,752,742	446,717,106
Operating profit	95,946,261	85,689,817
Other Deductions		
Interest on debentures	1,139,390	1,359,158
Provision for decline in conversion value of Canadian assets	650,000	1,500,000
Other charges (income)—net	(589,034)	(495,625)
	1,200,356	2,363,533
Income before provision for income taxes	94,745,905	83,326,284
Provision for Federal, Canadian and other income taxes	49,930,000	44,055,000
Net Income	44,815,905	39,271,284
Retained Earnings at Beginning of Period	187,406,494	169,073,038
	232,222,399	208,344,322
Deduct:		
Cash dividends		
4.30% convertible preferred stock	45,778	52,758
4% preferred stock	792,162	850,445
Common stock	20,722,639	20,051,784
Additions resulting from stock conversions and acquisitions	(20,795)	(17,159)
	21,539,784	20,937,828
Retained Earnings at End of Period	$ 210,682,615	$ 187,406,494

of original issue expense; $685,939 excess of proceeds over par value of common stock issued under options exercised; $70,861 discount on 4% preferred stock acquired.

EMPLOYEE RETIREMENT AND PROFIT-SHARING PLANS: Charges to income for Employee Retirement Plan contributions for the year amounted to $3,250,850 and for Profit-Sharing Plan contributions amounted to $4,491,528.

DEPRECIATION: The statement of income includes a charge for depreciation expense of $32,229,870 in 1963 and $30,970,233 in 1962.

FEDERAL INCOME TAX: The Company has treated 48% of its Federal income tax investment credit of $1,970,000 as a reduction of Federal income tax expense for 1963, and has deferred the balance to offset the future effect of reduced tax depreciation.

SUBSIDIARIES: The accounts of the Canadian subsidiaries are consolidated as U.S. Funds at dollar for dollar with provision made for the decline in Canadian exchange below par by establishing a reserve through a charge to income. Other foreign subsidiaries are not consolidated and the investment therein is shown at the U.S. dollar cost.

CONTINGENT LIABILITIES AND COMMITMENTS:

(a) The liability upon completion of contracts for construction of buildings and purchase of land not reflected in the financial statements amounted to approximately $16,700,000.

(b) Leases are in effect on 2,584 properties of which 2,058 contain options to cancel. Should the Company exercise these options, it could be required to purchase 1,727 properties. The minimum annual rental for 1964 under all leases (some of which contain percentages of sales clauses) is approximately $51,000,000. The corresponding figure for 2,066 leases extending beyond 1973 is approximately $46,600,000; for 451 extending beyond 1983 is approximately $14,500,000 and for 67 extending beyond 1988 is approximately $700,000.

(c) The contingent liability with respect to the treble damage litigation in which the Company and certain other stockholders of Blue Chip Stamp Company were named and joined as defendants, as noted in the 1962 Annual Report, was nullified during the year by the final settlement of such litigation without direct cost or expense to the Company.

SAFEWAY STORES, INCORPORATED

Balance Sheet

arative Figures as of December 29, 1962)

Liabilities and Stockholders' Equity

	December 28, 1963	December 29, 1962
Current Liabilities		
Debentures payable	$ 5,767,000	$ 5,700,000
Accounts payable and accrued expenses	125,887,530	113,756,886
Federal, Canadian and other income taxes	30,745,371	26,309,798
Total Current Liabilities	162,399,901	145,766,684
Long Term Liabilities and Reserves		
Debentures payable	16,677,000	23,061,000
Deferred income taxes payable	3,354,542	1,839,977
Preferred stock of Canadian subsidiary held by public—par value	7,441,400	7,756,400
Reserves for self insurance and decline in conversion value of Canadian assets	3,808,103	3,198,904
	31,281,045	35,856,281
Stockholders' Equity		
Preferred stocks	19,823,000	21,438,200
Common stock	20,954,235	20,896,407
Additional paid-in capital	62,914,379	61,995,249
Retained earnings	210,682,615	187,406,494
	314,374,229	291,736,350
TOTAL	$508,055,175	$473,359,315

In addition, 489,675 shares of common stock are reserved for issuance pursuant to the 1957 and 1963 Stock Option Plans authorizing the Board of Directors to grant to officers and employees of the Company and its subsidiaries restricted options to purchase common stock in consideration of their agreements not to terminate their employment before fixed dates. Of the total shares so reserved, 175,330 are reserved for issuance upon the exercise of options granted under the 1957 Plan which was superseded on May 21, 1963 by the 1963 Plan that was approved and adopted by the stockholders on that date, while 314,345 unissued or reacquired shares are reserved for issuance under the 1963 Plan. All matured options become void unless exercised within three months after employment terminates, with a one-year extension on employee's death, under both Plans and, in any event, not later than December 31, 1967 under the 1957 Plan or ten years after the date of granting under the 1963 Plan. At the beginning of the year options for 200,150 shares were outstanding under the 1957 Plan at a total option price of $8,341,426.56. During the year, no options were granted under the 1957 Plan; options for 116,700 shares were granted under the 1963 Plan at the option price of $61.1875 per share; options for 22,400 shares granted under the 1957 Plan were exercised at a total option price of $723,272.50; options for 1,120 shares (which are subject to reallocation) and 1,300 shares (which are not subject to reallocation) became void due to death or termination of employment; and no changes occurred in the exercise prices of outstanding options. At the end of the year options for 175,330 shares under the 1957 Plan and 116,700 shares under the 1963 Plan were outstanding, of which 14,550 shares are or will become exercisable at $25.625 per share; 28,125 at $32.125; 38,000 at $36.5625; 7,880 at $36.6875; 17,900 at $39.3125; 5,500 at $39.50; 7,000 at $49.125; 56,375 at $58.5625; and 116,700 at $61.1875.

At the beginning of the year 63,225 unoptioned shares were available for granting under the 1957 Plan that was superseded by the 1963 Plan on May 21, 1963 and, at the end of the year, 197,645 unoptioned shares were available for the granting of options under the 1963 Plan.

ADDITIONAL PAID-IN CAPITAL: Changes in 1963 consist of $168,059 excess of 4.30% preferred stock par value over that of common stock issued on conversion less $5,729 pro rata share

TEN-YEAR SUMMARY

1962	1961	1960	1959 (53 Weeks)	1958	1957	1956	1955	1954
2,509,644	2,538,032	2,468,973	2,383,011	2,225,352	2,117,314	1,989,305	1,932,243	1,813,517
83,326	78,587	75,178	76,511	69,874	65,018	53,361	27,330	28,831
44,055	41,985	40,360	40,810	36,468	34,111	27,955	13,708	14,847
39,271	36,602	34,818	35,701	33,406	30,907	25,406	13,622	13,984
1.56	1.44	1.41	1.50	1.50	1.46	1.28	.70	.77
903	1,021	1,082	1,130	1,197	1,392	1,941	2,272	1,915
20,052	19,045	17,676	15,415	13,461	10,767	8,819	8,386	8,336
18,316	16,536	16,060	19,156	18,748	18,748	14,646	2,964	3,733
3.06	2.85	2.72	2.80	2.63	2.48	2.14	1.08	1.17
1.60	1.52½	1.42½	1.25	1.10	.90	.80	.80	.80
9.40	9.91	8.68	9.17	8.64	9.33	9.20	9.10	11.29
21.56	20.08	18.71	17.40	15.52	14.30	12.63	11.02	10.77
36¼-60⅜	36⅝-63¾	32½-40½	34⅝-42¼	24½-41¾	20¼-27½	16⅞-23⅞	14⅛-19⅜	12¾-15¾
117,902	124,085	108,611	113,285	106,173	113,347	105,964	95,585	117,889
1.81	1.89	1.78	1.86	1.81	1.90	1.80	1.57	1.95
270,298	251,326	232,606	215,080	190,871	173,688	145,513	115,681	112,458
63,120	60,896	63,507	63,149	59,555	57,356	54,949	54,257	49,887
59,900	58,600	59,000	59,000	54,917	43,224	39,316	39,315	38,253
2,069	2,054	2,207	2,164	2,117	2,033	1,981	1,988	1,998
1,183	1,131	1,101	1,088	1,050	1,029	976	951	877

39,271	36,602	34,818	35,701	33,406
30,970	31,435	29,177	27,805	25,270
1,300	540	—	—	—
1,799	700	—	—	—
73,340	69,277	63,995	63,506	58,676
20,955	20,066	18,758	12,569	18,635
46,658	28,126	43,525	36,833	38,762
6,480	6,031	7,445	7,021	8,483
1,707	294	13	(274)	403
(6,184)	15,474	(4,674)	7,112	(7,175)
3,724	(714)	(1,072)	245	(432)
73,340	69,277	63,995	63,506	58,676

Note:
(1) *In thousands of dollars.*

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.

To the Board of Directors and the Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of December 28, 1963 and the related statement of income and retained earnings for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 28, 1963 and the results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Also, in our opinion, the summary of Source and Use of Funds for 1963 presented herein under Financial Highlights presents fairly the information shown therein.

San Francisco, California
February 21, 1964

Peat, Marwick, Mitchell & Co.

people in the new territory will react to our way of operating?

We went through that experience in May when our first Honolulu store was opened but it quickly provided the answers to any questions about how Safeway would be received there. Results have exceeded all expectations and indicate clearly that Honolulu people liked what they found at the new store which is pictured on page 10. Their approval of our way of operating has been further confirmed by an equally fine reception given our second Honolulu store which now is open.

Distribution Centers

Expansion of distribution center facilities to handle the increased volume of merchandise moving through our stores continued in 1963.

At Vancouver, British Columbia, 52,000 square feet were added to the grocery warehouse. At Edmonton, Alberta, a new perishable goods warehouse was built and the frozen foods warehouse was expanded.

Construction of a new distribution center was started in Spokane. After it is completed, only two

Large, standard-type store provides spaciousness for more effective, eye-appealing produce displays.

of the smaller of our twenty-two U.S. and Canadian Retail Divisions will not have modern distribution centers either completed or in varying stages of development.

In these centers, the various types of products required by the stores—produce, meats, frozen foods, groceries, etc., are received from suppliers, then selected and assembled into store orders for delivery to the stores. These centralized operations, working with the most modern facilities and equipment for materials handling, save both time and money and add to store sales and profits even though they are far removed from the stores. Stores can order closer to the time when merchandise is needed. This reduces store inventories by minimizing reserve stocks that are required. Better delivery service helps reduce out-of-stock conditions that hurt sales in the stores. Cost savings in merchandise handling and better inventory controls at the distribution center lower delivered cost of the merchandise to the stores, thereby helping profits.

In all these areas electronic data processing is playing an increasingly important part. During the year a new processing center was established in Washington, D.C. and uses of electronic units were extended in centers previously established.

First Safeway store opened in state of Hawaii last year (below), in Honolulu; a second has since opened and others are scheduled. State and local dignitaries joined in opening ceremonies. Among many treats, customers eagerly bought up fresh strawberries flown for rapid delivery from California farms.

Pictured below are views of the Shakespearean Theater in Ashland, Oregon, and Safeway's local store which spotlights the famed theater through murals adorning both sides of the store's front. Company often departs from standard store types to enhance a community's historic or architectural charm, in this case the renowned "aisleless" theater situated in the Siskiyou Mountains.

Where Safeway and Super S non-foods stores are in same building, customers have free access to both (seen above).

Super S Stores

Opening of six Super S stores during the year got us off to a fast start on our program to develop the sales and profit potential in non-foods. As reported a year ago, these stores are run by our Non-Foods Division which is made up of people specially trained and with years of experience in the operation of non-foods stores.

At sites selected, Super S stores usually are located alongside a Safeway store in the same building, as shown by the picture on the inside front cover of this report. Inside the building there is free access from one store to the other, as shown by the picture on page 11. There are some exceptions but this is the plan followed wherever possible.

Also on page 11 are pictures showing the pharmacy and some of the departments found in a typical Super S store. A wide range of merchandise is sold, including such items as small appliances, toiletries, toys, gifts, sporting equipment, power tools, cameras, hardware, paint, etc. Approximately

Experienced and specially trained employees operate the Super S stores (detailed in text). In photo, above right, is the cosmetics department of our store in Carmichael, Calif. In lower photo, the camera department. Each department in Super S stores carries wide selection of merchandise, totalling over 40,000 items in the store.

A mass of merchandise, but separated by spacious aisles, is seen in this panoramic interior of a Super S store.

42,000 items are stocked. By comparison, a typical Safeway store will stock from 7,000 to 8,000 items.

Super S stores supplement Safeway stores in two important ways—by offering frequently purchased merchandise not found in a Safeway store and by drawing people from a wider area than a food store. This is a very effective customer-appeal combination that will become increasingly important to sales and profits as our program for building more Super S stores progresses.

International

In England we now have two stores operating under the Safeway name. The other eleven stores there operate under the Gardner and Prideaux names.

On page 13 is a picture of the new store in Leicester. Upper floors are an office building which will be the largest one in Leicester when completed and fully occupied. The location of food stores on the ground floors of office or apartment buildings provides quite an interesting contrast with the United States and Canada, where adequate parking is a "must" for a modern food store.

In July we extended our operation to West Germany by acquiring ownership of Big Bär Basar of Hamburg. Big Bär operates two supermarkets in that city, one with 7,200 and the other with 10,000 square feet. Future plans call for the development of a number of new supermarkets in West Germany modeled after our American, Canadian and United Kingdom stores.

In Australia we moved ahead in organizing and preparing for future expansion. Safeway people needed to organize for the expansion moved to Australia to work with our new associates there and several of our key Australian associates came to this country to get a first hand knowledge of how Safeway operates. We now have seven stores in the Melbourne area.

All these developments constituted tangible progress, but perhaps the most important progress was that made in acquiring a better knowledge of marketing differences in other countries and in building a sound foundation for future growth.

Store in Leicester, England (above) is second opened there under Safeway name; other is in Bedford. These make total of 13 stores in our United Kingdom operations. We also have two, acquired, in Hamburg, W. Germany.

Registered pharmacists operate the drug departments (above and below), which are an important part of our Super S stores. These stores, as explained in text, supplement our food stores by expanding variety of merchandise available.

Supply Operations

One of the interesting developments in this phase of our operations was the introduction of Safeway Vitamins and Aspirin. They were received very well and promise to become big sellers because of the outstanding values they offer.

Acceptance of these new products is another example of customer confidence in Safeway Brands. Every year customers buy more of our Safeway Brand products. Quality and worthwhile savings make them a strong customer attraction. The Safeway S is used on the labels of most Safeway Brands and provides an easy way to identify them.

During the year a new milk plant was opened in Clovis, New Mexico. One of the interesting and gratifying aspects of this new plant was the aggressive way in which civic leaders of Clovis solicited location of the plant there. *Interesting* as an example of good salesmanship which we admire and *gratifying* as an indication of Safeway's standing and acceptance in Clovis.

People

The charming young lady pictured on the front cover of this report is a checker in one of our Oakland, California, stores and symbolizes our entire business—a business of people rather than machines.

Modern plants, warehouses, stores and other physical facilities are important but do not assure success. The deciding factor is people. This is axiomatic for all businesses but is particularly true in one, like ours, requiring the close, personal relationships involved in serving and satisfying more than a million customers every day.

How Safeway people measure up is indicated by the record-breaking results for the year. As a generality it could be said they were produced by a more intensive effort than ever before. More specifically, they were produced by skillful, imaginative sales planning and careful expense control. It was a team effort involving all phases of our operations—offices, plants, warehouses, trucking and stores.

A new line of Safeway Brand items, Vitamins and Aspirin (above), was introduced last year and has enjoyed good reception. These items join the other Safeway quality-controlled products growing in popularity.

Sales planning is the determination of what merchandise offerings will be most effective in bringing customers in. It starts with the selection of merchandise, weeks before it is offered in an advertisement, and ends with tempting displays in the stores.

Expense control is a realistic determination of how costs can be reduced by eliminating unnecessary expenses. It starts with a strong desire to make savings, requires imagination in figuring how to make them, and never ends.

To be successful, both require enthusiastic, thorough follow-through on carefully coordinated programs. That they were successful is evidenced by the record-breaking results which constitute another fine tribute to Safeway people.

Interest in local civic and community welfare is of prime concern to the Company and employees, a part of Safeway's good neighbor and good citizen policy. As an example, employees in our Vancouver, B.C. Division, learning of the Salvation Army's need for a station wagon at a summer camp for youths, purchased one (above) by diverting their usual charitable contributions.

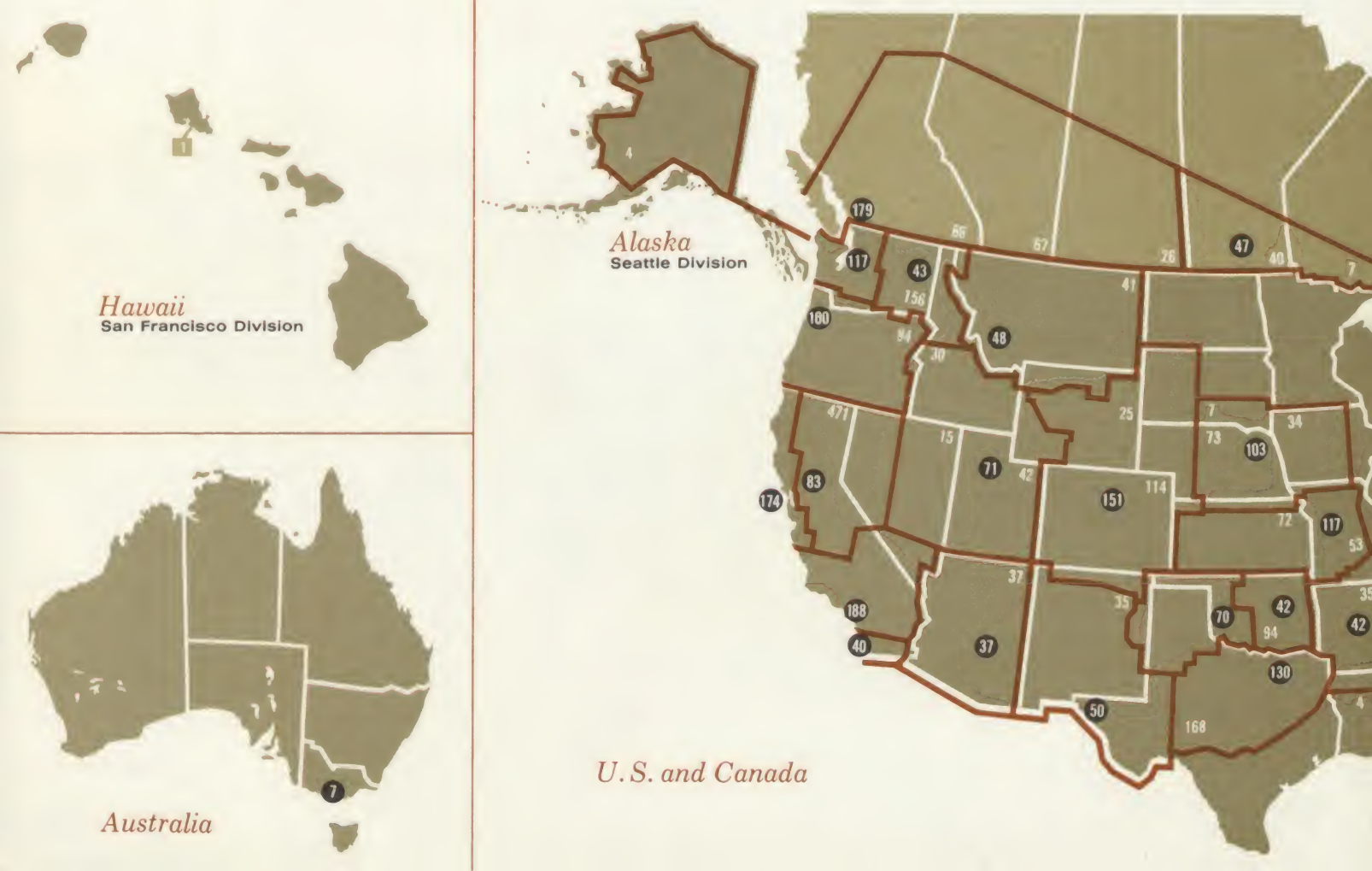
Special training leads to the specialized skills required in Safeway's operations. In photo on opposite page, a produce field buyer is using refractometer to check sugar content of citrus while touring growing areas. Below, a group of newly-hired food clerks leave training school for visit to a store where department heads give them on-the-job briefing. Company training programs range from clerking through advanced courses for executive development.

SAFEWAY TODAY

Map below shows the areas covered by Safeway's Retail Divisions. Numerals within circles indicate the number of stores in each Division and correspond with those preceding the listing of each Division Manager, below the map. Figures not encircled are the number of stores within the state or province—a total of 2,059 stores at year's end—including England, West Germany and Australia. Retail Divisions are grouped under a Regional Manager (excepting Washington, D.C., which reports direct to the President; foreign operations also are listed as separate categories). The map does not show locations of our Super S non-foods stores—six were opened in 1963—which are described in the text of this Report.

QUENTIN REYNOLDS
Regional Manager

- 48 W. E. MURRAY, Butte Division
- 43 L. M. PRINGLE, Spokane Division
- 117 C. A. BRADBURN, Seattle Division
- 100 GUS PARKER, Portland Division
- 174 QUENTIN REYNOLDS, San Francisco Division
- 83 K. W. HUNTINGTON, Sacramento Division



Henry Clay
Regional Manager

- 42 H. A. Justice — Little Rock Division
- 42 Fred E. Rowland — Tulsa Division
- 70 R. E. Templeman — Oklahoma City Division
- 130 C. C. Foster — Dallas Division
- 50 Robert L. Jaynes — El Paso Division
- 188 D. B. Kane — Los Angeles Division
- 40 Earl W. Smith — San Diego Division

R. L. Campbell
Regional Manager

- 103 Paul K. Hendrix — Omaha Division
- 117 Frank J. Glasgow — Kansas City Division
- 151 R. L. Campbell — Denver Division
- 71 W. E. Williams — Salt Lake City Division
- 37 Henry J. Frank — Phoenix Division

W. J. Kraft
Regional Manager

- 47 W. F. Griffiths — Winnipeg Division
- 179 W. J. Kraft — Western Division

- 7 George E. Rudolph — Australian Division
- 221 J. A. Anderson — Washington, D.C., Division
- 15 Basil Winstead — United Kingdom Division

United Kingdom

West Germany
United Kingdom Division

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